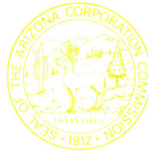


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ARIZONA CORPORATION COMMISSION

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May 17, 2012

APS Rates
Vote Explanation

Due to the time limit imposed to explain our vote, I am submitting this letter explaining my vote on the **APS Rate Case Settlement, Docket No. E-01345A-11-0224**.

It would be fair to say that this was a tough vote. As with any settlement agreements, there is always a provision or two that may cause some consternation. However, in fulfilling my constitutional obligation to set just and reasonable rates, it was prudent to consider the entirety of the agreement in balancing the public interest.

I want to thank all the parties in this case. As many have mentioned, to get all the parties with their own interests and agendas to reach consensus is no easy task. However, much of the credit for reaching an agreement in record time is due to the leadership of our ACC staff. I hope getting this case done in less than a year negates any criticisms of alleged regulatory lag at the Arizona Corporation Commission.

Also, I think it is important that this settlement agreement contains many provisions that will provide significant benefits to APS rate payers:

- No increase in the base rate for four years, which I believe will provide rate stability;
- A zero percent bill impact for the remainder of 2012 allowing for rate relief during the high energy usage associated with our summer months.
- Bill assistance for additional low income customers at the expense of the Company's shareholders;
- A process for simplifying customers' bills to allow ratepayers more clarity and transparency;
- A mechanism that supports energy efficiency and distributed generation programs to meet the Commission rules;

- The saving of hundreds of jobs on the Navajo Reservation, while retiring the dirtiest coal units in the region;
- The identification by APS of the challenges regarding workforce planning when dealing with an aging workforce.

In addition to the settlement provisions, I was able to get APS to confirm and commit that their new experimental buy-through rate will be open to all large customers who meet the qualifications, not just a few corporate giants. It will be possible for hospitals, educational institutions and houses of worship to participate in the process if they qualify.

While there are many benefits for ratepayers, I find it necessary to voice my concerns with an amendment that I voted against. I believe the amendment's language, which will now impose an increased surcharge for those who decide to install a solar unit, will have a chilling effect on the growth of solar in our State. In addition, it may burden those making an investment in solar.

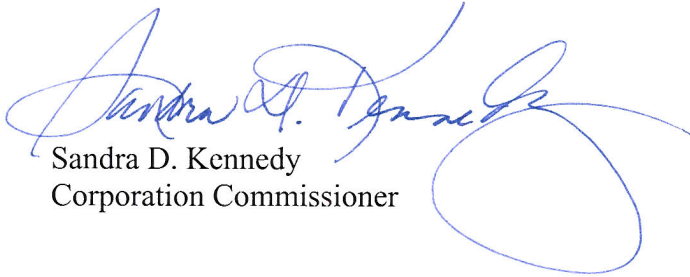
Unfortunately, there is a myth that ratepayers who receive solar incentives are gaming the system and are getting their solar units free. However, incentives and tax credits alone do not cover the cost of a solar unit. Those ratepayers who install solar are making a substantial financial investment.

It might be asserted that not all ratepayers benefit from the incentives, but I do not agree with that position. Some may not be able to have their own rooftop system, but they will nonetheless benefit from overall system-wide efficiencies that will result from the installation of distributed solar generation. For example, as their neighbors install solar units, those installations will defer the need to build costly generation plants and transmission lines. In addition, solar energy promotes a cleaner environment, which means fewer pollutants in the air we breathe. Further, having an industry that has helped grow our sagging economy provides real and measurable benefits for everyone.

I appreciate, that some view this issue as a matter of fairness, however I find it ironic that those making this argument would then support a policy that will require APS to provide 1,000 feet of free footage for line extensions for new home construction. Those costs eventually will be paid by all APS ratepayers.

As I mentioned earlier, this was a tough vote for me, because I was uncomfortable with the inclusion of the new solar surcharge and free line extension provisions. I only hope that in the name of "fairness" we do not turn back all the progress our State has made in being a leader when it comes to Solar Energy.

However, I believe this settlement agreement has positive aspects for ratepayers, which outweighed those two policy changes. I voted to approve the settlement agreement because it is in the public interest.

A handwritten signature in blue ink, appearing to read "Sandra D. Kennedy", with a large, stylized loop at the end.

Sandra D. Kennedy
Corporation Commissioner